Statement of Parley Casto
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I. Introduction

Chairman Markey, Ranking Minority Member Upton, and other distinguished Members of this Subcommittee, thank you for the opportunity to testify at today's hearing on the future of telecommunications competition. My name is Parley Casto, and I am Assistant Vice President – Strategic Pricing – AT&T Business Marketing for AT&T. I am responsible for all aspects of pricing for AT&T Wholesale products and services to interexchange carriers, wireless customers, content providers, CLECs, and ISPs.

Having been in the telecommunications business for more than one hundred years, AT&T is uniquely aware of the history of telecommunications in the United States. But AT&T is also uniquely aware of the present and future of telecommunications competition, as our company increasingly faces competition from new technologies and new services, which have radically changed the telecommunications sector in the United States.

AT&T faces vigorous competition in all of its areas of operation: retail and wholesale, local and long-distance voice, wireless, broadband, video, and enterprise services that include one or more of these services. AT&T faces both intra-modal competition and, increasingly, inter-modal competition from wireless and cable-based technology platforms. The growth of inter-modal competition is a trend that is occurring, not only in consumer services, but also in enterprise services, as wireless and cable providers are making fast inroads in the provision of services to large businesses. I will focus my testimony today on the competition AT&T faces in the wholesale and enterprise market.

AT&T today faces intense competition for special access and other wholesale and enterprise services from a very large number of competitors. As discussed below, traditional wireline CLECs have continued to mature, consolidate, and dramatically expand their fiber networks. Those networks now reach virtually all areas of the country with appreciable special access demand. The precise level of CLEC competition is, unfortunately, unknown because as the GAO pointed out in its recent report, CLECs have refused to reveal to the FCC where they have deployed their own facilities, the buildings they already serve, and the buildings they are capable of serving. Nevertheless, based on the publicly available information that AT&T has been able to obtain from third parties, which documents some CLEC facilities, as well as my own experience selling to customers, multiple CLECs are competing wherever there is appreciable special access demand. This intense competition is recognized by analysts, one of which recently reported that CLEC competition for wholesale private line services rates a "9" out of a possible "10".[1]

While CLEC competition has grown steadily during the last decade, the most dramatic developments in special access are of more recent vintage. In the past few years, inter-modal competition, particularly from cable and broadband wireless providers, has taken off. Cable providers, looking for new sources of revenue, have made business services a priority. Indeed, Comcast has announced that "offering services geared to small and mid-sized businesses will be its top priority in 2007 and 2008." With widespread fiber and coaxial networks that blanket nearly all locations where people live and work, cable operators can and increasingly do provide all levels of service, including DS1 and DS3 service throughout the country.

Broadband wireless providers likewise are actively and successfully competing against AT&T and other LECs in the provision of special access services. Indeed, all of the major wireless carriers, including those that continue falsely to claim that they have no alternatives to

[1] *North American Wholesalers Private Line Services Markets,* Report by Frost & Sullivan, at 1- 11 (2007).

LEC services, now rely heavily on wireless backhaul. According to one study, roughly 20% of mobile base stations in the United States already are served via wireless technologies, and that percentage is expected to double by 2011. Those data, moreover, should come as no surprise. Wireless providers already have captured the *majority* of the backhaul market globally and nearly two thirds of mobile base stations are linked via wireless broadband. Wireless special access alternatives indisputably are here now, are expanding rapidly, and are being adopted in a big way by those that claim they are entirely dependent on price cap LECs.

AT&T has responded aggressively to these competitive pressures. Indeed, contrary to the rhetoric of certain proponents of special access re-regulation, AT&T has significantly lowered its prices for DS1 and DS3 circuits – including where rates have been deregulated – and rates are far lower today than they were at the time the FCC established its pricing flexibility regime. Those are the facts and they are undisputed. Moreover, at the same time it is lowering rates, AT&T is taking other steps to meet its customers' specialized needs, including dramatically increasing investment in its network and developing more, innovative service offerings.

These trends – declining prices, increased investment, increased innovation, and increased output – are hardly the trends one would expect to see in a market in which competition is lacking. To the contrary, these are the hallmarks of competition. They demonstrate, beyond dispute, that re-regulation of special access services is unnecessary and inappropriate. To be sure, any large business would welcome a government-mandated price reduction in the cost of its inputs. But the unrefuted facts demonstrate that the Federal Communications Commission (FCC) was right in 1999 to introduce pricing flexibility into markets in which AT&T and other ILECs faced special access competition, and that there is no

need to go back to the past. Eight years later, competition for special access services is even fiercer, and the justification for pricing flexibility is even greater.

II. Competition from Traditional CLECs

Traditional wireline CLECs have deployed their own fiber to blanket the downtown, office park, and other dense commercial areas where special access demand is concentrated. Consequently, the majority of DS1 and DS3 circuits that AT&T sells could readily be supplied by these CLECs over their existing fiber building connections or with short extensions (a few blocks or less). Through both consolidation and expansion, the CLEC industry has grown even stronger. The geographic scope of CLEC fiber networks has significantly expanded, and, as a result, even more commercial buildings are connected or very close to CLEC fiber. In fact, I am not aware of any significant commercial area where AT&T does not face facilities-based special access competition today.

It is clear just from industry analyses and the CLECs' own press releases in the past two years that CLECs have added thousands of fiber miles and building connections to their networks. In addition, through consolidation, they have strengthened their market positions. For example, Level 3 now has completed acquisitions of WilTel, Progress Telcom, Telcove, Looking Glass, ICG Communications, and Broadwing.[2] In each case, the acquisition greatly expanded Level 3's fiber network and the number of buildings connected to that network. Level 3 further expanded its network by purchasing 1,600 miles of metropolitan fiber facilities, with

[2] Level 3, SEC Form 10-Q, at 38 (filed May 10, 2007), available at http://lvlt.client.shareholder.com/sec.cfm?DocType=Annual,Quarterly.

connections to 200 buildings, divested by AT&T in connection with the AT&T/SBC merger.[3] As of April, 2007, Level 3 reported having more than 25,000 route miles of fiber, and connections to more than 6,500 buildings throughout the country.[4]

Likewise, Time Warner Telecom, which is represented on this panel today, informed investors in 2006 that its "primary objective" was to be a "leading provider of high quality managed data and telecommunications services in each of our service areas, principally utilizing our fiber facilities and our national IP backbone network to offer high value voice, data, Internet, and dedicated services to become the carrier of choice for . . . business enterprises, governmental agencies, and other carriers."[5] To this end, Time Warner Telecom acquired Xspedius Communications, thereby expanding its fiber footprint in 75 markets.[6] Time Warner also added facilities obtained from AT&T in connection with AT&T's divestiture of channel terminations and transport that were conditions of the AT&T/SBC merger. These acquisitions, and Time Warner Telecom's other capital investments, increased Time Warner Telecom's "fiber network by approximately 4,000 route miles and into approximately 1,500 additional buildings."[7] Time Warner Telecom now has nearly 8,000 on-net buildings.[8]

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[3] Denise Pappalardo, Other Carriers Benefit From AT&T, Verizon Acquisitions; Level 3 and AboveNet pick up Divested Assets, Network World (April 4, 2007), available at http://www.networkworld.com/news/2007/040407-att-verizon.html. Level 3 Press Release, Level 3 Completes Purchase of AT&T Divestiture Assets (April 4, 2007), http://www.lvlt.com/newsroom/pressreleases/2007/20070404.html.
[4] *Id.*
[5] Time Warner Telecom, Annual 10-K Report, at 3 (March 2006).
[6] *Id.* Time Warner Press Release, Time Warner Telecom Closes Xspedius Communications Acquisition (Nov. 1, 2006), available at http://www.twtelecom.com/news_info/twtc_news_06.html.
[7] *Id.* at 2-3.
[8] *Id.*

III. Competition From Cable Operators and Broadband Wireless Providers

I am sure that this additional evidence of widespread facilities-based competition will be met with complaints that there still is not enough competition, because not every single commercial building is or immediately could be supplied by a wireline CLEC today. These complaints are red herrings. Irrespective of whether competitive fiber facilities already have been deployed ubiquitously (and, as maps of known CLEC fiber submitted to the FCC by AT&T clearly establish, CLECs have deployed fiber virtually everywhere there is significant demand for dedicated, high capacity services[9]), purchasers of high-speed, dedicated-access services have a wealth of alternatives available – including burgeoning cable and broadband wireless solutions that are tailor-made to address locations, such as cell tower and other locations, that may be remote, even if they have relatively lower demand. These providers have proven ready, willing and capable of providing DS1 and DS3 services, as well as advanced OCn level and Ethernet-based services.

Moreover, as noted, the competitive alternatives available to wireless providers are rapidly growing. As wireless usage has exploded, and wireless carriers transform themselves into providers, not only of voice services, but also Internet, music, video, and myriad other entertainment and data services, the amount of traffic that must be carried over cellular "backhaul" facilities likewise has grown exponentially. Hence cellular carriers now require DS3s or many multiples of DS1s for backhaul connections that formerly required only one or

[9] Those maps do not include a significant amount of competitive fiber that by-passes the ILECs' networks. Nevertheless, the map of known CLEC fiber in San Francisco establishes that Sprint's reliance on the ILEC for all of its high-capacity facilities and services in that market simply reflects its buying decisions – not a lack of alternatives.

two DS1s. The increased bandwidth requirements for backhaul facilities have fueled an explosion of competition in the provision of backhaul services. Cable operators and broadband wireless providers are now competing vigorously in this space, and they are uniquely equipped to provide DS1 as well as higher capacity services. These inter-modal competitors have aggressively targeted DS1 and DS3 demand, including demand at relatively remote locations such as cellular towers, that often has been a focus of advocates of increased regulation.

Outside of its local service area, AT&T itself now purchases literally thousands of DS1 and DS3 circuits from broadband wireless companies (including FiberTower and TTMI) and cable companies (including Comcast, Time Warner, Cox and Cablevision). My own business experience also confirms that cable and wireless providers are firmly established in the market: AT&T's special access customers constantly remind AT&T that they can turn to these alternatives and, if AT&T wants to retain their business, AT&T must be willing to ensure that its prices and services remain competitive.

Cable companies continue to expand their offerings, and to introduce new services, particularly to small and medium-sized businesses. Indeed, industry analysts consistently emphasize the significant opportunities for cable companies in the small and medium-sized business market.[10] By all accounts, cable companies are moving aggressively to take full advantage of these opportunities.[11]

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[10] *See, e.g.*, Tim McElgunn, Pike & Fischer, *Cable Commercial-Services Strategies*, at 4 (May 2007) ("Pike & Fischer has no doubt that the largest [cable] MSOs and many smaller operators will indeed achieve meaningful and rapid penetration into the $65 billion annual SMB revenue stream"); Sterling Perrin, Heavy Reading, *Cable vs. Telcos: The Battle for the Enterprise Market*, at 12 (Feb. 2006) *("Heavy Reading")* ("SMEs – roughly speaking, companies employing between 10 and 499 people – are widely seen as the market sweet spot for the [cable] MSOs"); The Insight Research Corporation, *Cable Telephony: The Threat To Small Business ILEC Markets, 200 7-2012* (April 2007).

[11] *See, e.g.*, Bob Wallace & Paula Bernier, *Cablecos Voice their Business Strategies* (June 21, 2007), available at http://www.newtelephony.com/news/76h20193231.html *("Wallace & Bernier")* ("Having established beachheads in many local markets, the five largest U.S. cablecos are launching a new offensive to attack the unprotected flank of incumbent telcos, and secure SMB customers"); *see also id.* ("The big five cablecos note that SMBs provide fatter

Cox, for example, reports that it provides service to "more than 100,000 business customers" in "more than 36 markets, from California to New England."[12] Moreover, a significant portion of Cox's customers are small and medium sized businesses located in areas outside the densely populated downtown areas, and its market share is growing at double digit rates annually.[13]

Time Warner Cable is also competing aggressively in the special access market. Time Warner Cable is the second-largest cable provider in the United States and provides business customers with fiber-based competitive alternatives. As the company states on its website:

> We offer point-to-point, point-to-multipoint and multipoint-to-multipoint fiber optic connectivity for a high-capacity connection between multiple offices over your existing Ethernet lines – meaning you will have a dedicated fiber connection, not a shared network with costly complicated upgrades. In fact, our cost-per-Mbps is typically less than traditional telecommunications companies' solutions.[14]

Time Warner Cable's footprint extends throughout major U.S. urban and suburban areas, including Los Angeles, San Antonio, Austin, Columbus, Cincinnati and other markets in AT&T's service area. As of December 31, 2006, Time Warner Cable had 245,000 commercial high-speed data subscribers.[15] Further, Time Warner Cable has deployed an integrated "Ethernet-to-TDM network" and provides services to "nationwide cellular telephone"

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margins than do residential customers, boast larger ARPU [average revenue per unit] and lower churn rates"); Peter Grant, The Wall Street Journal Online, *Cable Firms Woo Business In Fight for Telecom Turf* (Jan. 18, 2007), available at http://startup.wsj.com/runbusiness/relationships /2007011 8-grant.html?refresh=on ("Some cable-industry executives predict there are billions of dollars of new revenue to be made from serving business clients.").

[12] *See* Cox Business Services, http://www.coxbusiness.com/aboutus/index.html.

[13] *See, e.g., Wallace & Bernier.*

[14] *See* Time Warner Cable BusinessClass, http://twcbc.com/corporate/products/data/metroethernet.html.

[15] Time Warner Cable, Inc., 2006 Form 10-K, at 8 (filed Feb. 23, 2007).

providers.[16] "Time Warner Cable's solution not only reduces '2G' access costs by providing T1 circuits for backhaul, but also provides the high-speed Ethernet necessary to position the cellular provider for further '3G' network expansion."[17]

In the case of broadband wireless carriers, their ability to provide cost-effective DS1, DS3, and higher-capacity services just about anywhere derives from the fact that broadband wireless services can be deployed to most locations without the need to lay fiber. These technologies are deployed using antennae, usually attached between the rooftops or windows of the customer buildings receiving the service and another building connected to a CLEC, ILEC or other carrier's fiber network, and thus at much lower cost than comparable wireline services. Equally important, installation of these facilities can be completed in as few as 24 to 48 hours – far less than the four to six weeks required to build a conventional wireline circuit. Fixed wireless services also are highly flexible. They can be installed on a temporary basis, and bandwidth can be scaled with demand. Prior limitations on fixed wireless, such as distance and line-of-sight, are being overcome by new technologies, such as WiMAX, which does not require clear line-of-sight, and has a potential coverage area that spans 30 miles with little regard to topography.

Fibertower, for example, offers "carrier-grade performance, point-to-point and point-to-multipoint capabilities, and TDM-to-Ethernet service platforms,"[18] including "wireless equivalents of []T1, DS3, OC3 and Carrier Ethernet."[19] In addition to providing service to "leading wireless carriers" and "enterprise and government partners" in many of the leading

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[16] RAD Data Communications, Case Study, Cellular Backhaul over Metro Ethernet (Nov. 2005) available at http://www.rad.com/RADCnt/MediaServer/19960_TWC-Cell_Backhaul_Metro_ Eth_CS.pdf.
[17] *Id.;* Lynette Luna, *Getting Back Backhaul Costs*, Tellabs (Winter 2005-2006), available at http://www.tellabs.com/news/reprints/backhaul_winter05-reprint.pdf.
[18] FiberTower Corp. – About FiberTower, http://fibertower.com/corp/company.shtml.
[19] FiberTower Corp. – Access, http://fibertower.com/corp/solutions-access.shtml.

metropolitan areas,[20] FiberTower owns wireless spectrum throughout the country and continues to rapidly expand its network to serve virtually any location.

IV. What Vigorous Competition Means to AT&T's Customers

As I have shown today, throughout MSAs of all sizes and types, including those with Phase II pricing flexibility and those that remain subject to price caps, AT&T competes with many strong facilities-based providers. That undeniable reality means that my team and others at AT&T are constantly looking for ways to provide special access services to our customers more efficiently, at lower cost and higher quality, and in ways that are better tailored to customers' individual and diverse needs.

I would note that a recent study by the General Accountability Office ("GAO") found that prices in pricing flexibility areas (Phase I and Phase II) have decreased significantly since pricing flexibility was granted, and that "the decrease appears to be consistent with the prospect of competition that FCC predicted."[21] Nor are those lower prices limited to businesses in densely populated urban areas. To the contrary, customers located in buildings where there may be fewer or no existing competitive fiber alternatives to AT&T's special access pricing get the full benefits of the intense price competition that exists in most other areas. This is because AT&T provides special access under tariffs and contracts that are available throughout a particular MSA, state or region. It would be impractical for AT&T to set its prices for its services on a building-by-building basis. Consequently, price decreases designed to meet competition in areas with the

[20] These areas include DC Metro, Boston, Chicago, Cleveland, Dallas/Fort Worth, Denver, Detroit, Houston, NJ/NY, Pittsburgh, San Antonio/Austin/Waco, Tampa, Atlanta, and others. *See* FiberTower Corp. – About Fiber Tower, http://fibertower.com/corp/company.shtml.

[21] GAO, *FCC Needs to Improve Its Ability to Monitor and Determine the Extent of Competition in Dedicated Access Services*, at 13 (Nov. 2006).

largest number of competitive alternatives are generally available to *all* customers in that area, regardless of the number of competitors serving any particular customer location.

In addition to continuing to compete aggressively on price, AT&T has sought to improve and expand upon its current services. For example, to meet the ever-increasing demand by current and future wireless backhaul customers, AT&T has been increasing its deployment of fiber facilities to replace existing copper facilities to serve the numerous cell site locations located outside the areas where AT&T already has deployed fiber networks. To distinguish its services from the many competitive alternatives to its special access services, AT&T has devoted additional resources to provide customers even greater opportunities to purchase customized services that best meet their needs. AT&T's sophisticated customers desire agreements that are tailored to their specific business needs, and less, not more, regulation is necessary to allow AT&T to meet those demands.

And our customers constantly remind us that, if AT&T does not offer them what they want, they have plenty of special access alternatives. During negotiations with AT&T for the purchase of backhaul special access services (in pointed contrast with its representations to lawmakers and regulators), Sprint has repeatedly pointed out to the AT&T team that Sprint has many other options to meet their backhaul needs. Sprint has discussed in detail with AT&T its ability to utilize cable and broadband wireless suppliers as well as its ability to self-supply special access via microwave solutions if AT&T does not offer terms Sprint finds acceptable. These are not hollow threats. In August, Sprint and FiberTower announced that "FiberTower had entered into an agreement with Sprint Nextel . . . to provide backhaul services [to Sprint Nextel] in seven of the wireless carrier's [Sprint Nextel's] initial WiMax launch markets."[22]

[22] Press Release, FiberTower Announces Backhaul Agreement With Sprint Nextel for WiMax Buildout (Aug. 6, 2007), available at http://www.bbwexchange.com/pubs/2007/08/06/page1423- 647177.asp.

It is not necessary for me to rely solely on our customers and industry reports to confirm that there are myriad special access alternatives throughout the country. My colleagues in AT&T Mobility have confirmed that AT&T Mobility generally has multiple alternatives for backhaul suppliers at its many cell sites, and that AT&T in fact purchases thousands of DS1 and DS3 capacity backhaul facilities from broadband wireless and cable companies outside of AT&T's local service territory. In addition to these cable and broadband wireless alternatives, my AT&T Mobility colleagues report that traditional wireline CLECs such as Time Warner Telecom and Level 3 (which reports that it provides services to all five of the largest wireless carriers today) also compete to serve these wireless backhaul needs.

V. Conclusion

Competition from traditional wireline CLECs, cable operators, and wireless broadband providers has provided special access customers with multiple options, which has resulted in lower prices and greater service innovation. This competition is not theoretical; it is a demonstrated fact, despite the concerted effort by our competitors to deprive the FCC and Congress of accurate information regarding the locations of their networks and the availability of their services. And, in an attempt to mislead policymakers about special access prices, our competitors continue to harp on ARMIS-based special access "rates of return" that have repeatedly been shown to reflect arbitrary and long-frozen allocations that render them meaningless.

AT&T's own network deployments out-of-region demonstrate that the current regulatory framework has produced an environment that is conducive to investment in new technologies

and services. And AT&T Mobility enjoys multiple backhaul options outside of the AT&T ILEC footprint.

The reality is that prices are lower, and differentiation is greater, both thanks to the introduction of robust facilities-based competition. This competition obviates the need for re-regulation, which would destroy the incentives that all companies currently have to constantly improve their service offerings and enhance their networks.

Mr. Chairman, thank you for the opportunity to testify today. I would be happy to answer any questions from Members of the Subcommittee.